

Message Text

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PAGE 01 COLOMB 04766 01 OF 02 060256Z

ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 /084 W
-----062612 060412Z /66

R 051121Z DEC 77

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 8911

INFO AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE SECTION 1 OF 2 COLOMBO 4766

E.O. 11652: N/A

TAGS: ECON, EFIN, EAID, EAGR, PINT, CE

SUBJ: BUDGET APPROVAL BY PARLIAMENT AFTER GENERALLY UNEN-
LIGHTENING DEBATE; PRIME MINISTER OUTLINES BUDGET PHILO-
SOPHY

REF: COLOMBO 4452

1. SUMMARY: THE 1978 BUDGET PROGRAM WAS APPROVED BY PARLIAMENT ON DECEMBER 2 BY A VOTE OF 131 TO 24. THE DEBATE SHED LITTLE LIGHT ON THE COMPLEXITIES OF THE BUDGET; GOVERNMENT MP'S SPENT MOST OF THEIR TIME ATTACKING THE RECORD OF THE PREVIOUS REGIME, WHILE OPPOSITION MEMBERS PRESENTED NO SUSTAINED OR PENETRATING ARGUMENTS AGAINST THE BUDGET. THE ONLY CONTRIBUTION TO CLARITY AND UNDERSTANDING WERE PROVIDED BY THE PRIME MINISTER AND THE FINANCE MINISTER. TAKING FULL RESPONSIBILITY FOR THE BUDGET PROPOSALS, THE PM SAID IT WAS NOT POSSIBLE TO HAVE BOTH SUBSIDIES AND ECONOMIC DEVELOPMENT. CALLING HIS POLICIES "DEMOCRATIC SOCIALISM", THE PM PLEDGED TO MAINTAIN AND MAKE MORE EFFICIENT THE PRESENT STRUCTURE OF STATE OWNERSHIP, WHILE ENCOURAGING PRIVATE SECTOR ACTIVITIES IN THE REMAINDER OF THE

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PAGE 02 COLOMB 04766 01 OF 02 060256Z

ECONOMY. HE SET FOUR GOALS FOR HIS GOVERNMENT: (1) REHABILITATION OF COLOMBO, (2) THE GREATER COLOMBO EXPANSION SCHEME, (3) THE FREE TRADE ZONE, AND (4) THE ACCELERATED MAHA-WELI DEVELOPMENT SCHEME. THE FINANCE MINISTER DEFENDED ACCEPTANCE OF IMF HELP BY POINTING OUT THAT THE PREVIOUS GOVERNMENT HAD DRAWN ON IMF RESOURCES IN EACH OF THE PAST SEVEN YEARS. HE PROMISED TO KEEP THE FOOD SUBSIDY QUESTION UNDER REVIEW

AND TO MAKE ADJUSTMENTS TO MINIMIZE THE BURDEN OF RATION CUTS.
END SUMMARY.

2. BUDGET DEBATE

AFTER TWO WEEKS OF UNINSPIRED DEBATE, THE NATIONAL STATE ASSEMBLY (NSA) APPROVED THE UNITED NATIONAL PARTY'S (UNP) 1978 BUDGET PROGRAM (REFTEL) LATE ON DECEMBER 1 BY A VOTE OF 131 TO 24. SURPRISINGLY, ONE MEMBER OF THE OPPOSITION TAMIL UNITED LIBERATION FRONT (TULF) VOTED WITH THE GOVERNMENT AND WAS SUBSEQUENTLY SUSPENDED FROM HIS PARTY.

3. GIVEN THE FUNDAMENTAL CHANGES IN ECONOMIC POLICY INCORPORATED IN THE UNP BUDGET AND THE COMPLEXITY OF THE ISSUES INVOLVED, THE LEVEL OF DEBATE WAS DISAPPOINTING. FOLLOWING THE EXAMPLE SET BY THE FINANCE MINISTER IN HIS NOVEMBER 15 SPEECH, MOST UNP MEMBERS DEVOTED A MAJOR PORTION OF THEIR DEBATING TIME TO ATTACKING THE PREVIOUS GOVERNMENT; THE REST OF THEIR TIME WAS LARGELY DEVOTED TO GENERALIZED PRAISE OF THE BUDGET. AGRICULTURE MINISTER E.L. SENANAYAKE DIVERTED ATTENTION FROM THE BUDGET ALTOGETHER WITH CHARGES THAT FORMER PRIME MINISTER, MRS. BANDARANAIKE, HAD JUGGLED THE VALUE OF HER LANDS TAKEN UNDER THE LAND REFORM PROGRAM IN ORDER TO OBTAIN HIGHER COMPENSATION. THOSE FEW UNP MEMBERS WHO VENTURED INTO THE DETAILS OF THE BUDGET OFTEN DEMONSTRATED THAT THEY WERE AS CONFUSED AS THE GENERAL PUBLIC. THE ONLY UNP SPEAKERS WHO MADE ANY CONTRIBUTION TO CLARITY AND UNDERSTANDING WERE LIMITED OFFICIAL USE

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PAGE 03 COLOMB 04766 01 OF 02 060256Z

THE PRIME MINISTER AND THE FINANCE MINISTER.

4. PRIME MINISTER'S STATEMENT

IN A PRESENTATION ON NOVEMBER 28, THE PM OUTLINED THE POLITICAL AND ECONOMIC PHILOSOPHY UNDERLYING THE BUDGET. OBVIOUSLY ANSWERING CRITICS WITHIN HIS OWN PARTY, THE PM TOOK FULL RESPONSIBILITY FOR ALL THE MEASURES PROPOSED BY THE FINANCE MINISTER. THE PM SAID THAT EVEN THE SRI LANKA FREEDOM PARTY (SLFP) WHEN IT WAS IN POWER, HAD RECOGNIZED THE NEED TO DO AWAY WITH FREE RICE AND OTHER SUBSIDIES BUT DID NOT HAVE THE POLITICAL COURAGE TO DO SO. THE UNP, HOWEVER, HAS REJECTED THE POLICIES OF THE PREVIOUS GOVERNMENT AND WILL TAKE THE NECESSARY MEASURES TO GENERATE EMPLOYMENT THROUGH DEVELOPMENT WHETHER SUCH MEASURES ARE POPULAR OR NOT. THE PM ADMITTED THAT THE BUDGET WOULD CREATE HARDSHIPS FOR THOSE LOSING THEIR FOOD RATIONS BUT STATED THAT IT WAS NOT POSSIBLE TO MAINTAIN SUBSIDIES AND AT THE SAME TIME ENGAGE IN DEVELOPMENT WORK. HE REFERRED TO THE BUDGET AS ONLY THE BEGINNING OF A SIX-YEAR EFFORT TO PROMOTE ECONOMIC DEVELOPMENT.

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PAGE 01 COLOMB 04766 02 OF 02 060311Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 COLOMBO 4766

5. CALLING HIS POLICIES "DEMOCRATIC SOCIALISM," THE PM ASKED THE OPPOSITION TO ANEM ONE COMPLETELY SOCIALIST COUNTRY WITH A POLITICAL OPPOSITION. HE OFFERED TO INSTITUTE A TOTALLY SOCIALIST GOVERNMENT IF THE OPPOSITION WAS PREPARED TO PACK UP AND GO HOME. HIS GOVERNMENT'S POLICY IS TO MAINTAIN AND MAKE MORE EFFICIENT THE PRESENT SOCIALIST STRUCTURE, IN WHICH A LARGER PORTION OF THE MEANS OF PRODUCTION ARE IN STATE HANDS, WHILE ENCOURAGING SMALL AND MEDIUM-SIZED PRIVATE SECTOR ACTIVITIES IN THE REST OF THE ECONOMY. HOWEVER, LARGE-SCALE INVESTMENTS, BOTH DOMESTIC AND FOREIGN, WILL BE RESTRICTED TO THE FREE TRADE ZONE.

6. THE PM OUTLINED FOUR MAJOR UNDERTAKINGS WHICH HIS GOVERNMENT PLANS TO COMPLETE: (1) THE REHABILITATION OF THE CITY OF COLOMBO, (2) THE DRAINING OF SWAMPS AND NEW CONSTRUCTION UNDER THE GREATER COLOMBO EXPANSION SCHEME, (3) THE ESTABLISHMENT OF THE FREE TRADE ZONE; AND (4) THE ACCELERATED MAHAWELI DEVELOPMENT SCHEME. TO ACHIEVE THESE GOALS, PARTICULARLY THE MAHAWELI PROGRAM, THE PM MENTIONED THE ESTABLISHMENT OF A NATIONAL ENLISTMENT SERVICE TO ORGANIZE THE YOUTH OF THE COUNTRY FOR DEVELOPMENT WORKS. HE INDICATED SUCH SERVICE MIGHT BE MADE COMPULSORY. HE ALSO SAID ARRANGEMENTS WILL BE LIMITED OFFICIAL USE

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PAGE 02 COLOMB 04766 02 OF 02 060311Z

MADE SO THAT MEMBERS OF PARLIAMENT CAN ALSO WORK PART TIME ON THE MAHAWELI SCHEME.

7. CLOSING SPEECH BY FINANCE MINISTER

IN A CLOSING STATEMENT BEFORE THE VOTE, FINANCE MINISTER RONNIE DE MEL SAID THE GOVERNMENT WOULD NOT KNEEL BEFORE THE WORLD BANK OR ANY OTHER AID-GIVING AGENCY AT THE COST OF THE PEOPLE. HE SAID THE IMF WANTED RS. 3 BILLION ALLOCATED TO THE PROPOSED DEVELOPMENT BANK, BUT THIS WOULD HAVE REQUIRED ABOLISHING SUBSIDIES. THE GOVERNMENT HAD INSISTED THAT IT COULD NOT DO AWAY ENTIRELY WITH SUBSIDIES AND PERSUADED THE IMF TO ACCEPT RS. 390 MILLION AS THE INITIAL CONTRIBUTION TO THE DEVELOPMENT BANK. THE MINISTER POINTED OUT THAT THE TWO FINANCE MINISTERS UNDER THE PREVIOUS GOVERNMENT HAD GONE TO THE IMF FOR HELP, AND HE ITEMIZED DRAWINGS FROM THE IMF FROM 1970 TO 1976 TOTALLING OVER RS. 1.7 BILLION. AFTER ACCEPTING THIS AID, THE SLFP NOW CRITICIZES THE PRESENT GOVERNMENT FOR OBTAINING RS. 1.6 BILLION IN ONE YEAR.

8. ON FOOD SUBSIDIES, THE MINISTER SAID THAT THE RS. 300 PER MONTH INCOME CUTOFF FOR THE RICE AND SUGAR RATION WAS INTENDED TO RETAIN THE RATION FOR HALF THE POPULATION. THE GOVERNMENT WILL KEEP THE SITUATION UNDER CONSTANT REVIEW AND IF IT APPEARS THAT MORE THAN SEVEN MILLION PEOPLE WILL LOSE THEIR RATION, APPROPRIATE ADJUSTMENTS WILL BE MADE.

9. THE MINISTER SAID THAT THE DEVALUATION AND THE NEW SYSTEM OF LIBERALIZED IMPORTS WILL DESTROY THE BLACK MARKET. HE POINTED TO THE IMPACT ON THE RICH OF HIGHER INCOME TAXES AND THE ABOLITION OF THE CONVERTIBLE RUPEE ACCOUNTS AND TO THE BENEFITS THE POOR WILL RECEIVE FROM THE WAGE INCREASE, THE RS. 50 MONTHLY PAYMENT TO UNEMPLOYED, THE REDUCED COST OF OPEN MARKET SUGAR, AND THE CONTINUED FLOUR SUBSIDY AS EXAMPLES OF LIMITED OFFICIAL USE

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PAGE 03 COLOMB 04766 02 OF 02 060311Z

THE SOCIALIST NATURE OF THE BUDGET.

10. OPPOSITION COMMENTS

TULF SPEECHES WERE A MIXTURE OF CRITICISM AND PRAISE FOR THE BUDGET. MOST OF THE CRITICAL COMMENTS WERE RELATED TO THE REDUCTION IN FOOD SUBSIDIES. THE SLFP PORTION OF THE OPPOSITION SPOKE AGAINST THE SUBSIDY CUTS AND THE INFLATIONARY IMPACT OF THE DEVALUATION, BUT PROVIDED NO SERIOUS ANALYSIS OF THE OVERALL EFFECTS OF THE BUDGET. SLFP MEMBERS MADE NO ATTEMPT TO DEFEND THE MUCH ATTACKED RECORD OF THE PAST SEVEN YEARS. TO THE DISAPPOINTMENT OF MANY, MRS. BANDARANAIKE DID NOT SPEAK.

WRIGGINS

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Disposition Date: 22 May 2009
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